

## Representation

### Draft Modification Report

#### 0333 - Update of the default System Marginal Buy Price and System Marginal Sell Price

**Consultation close out date:** 11 February 2011

**Organisation:** National Grid NTS

**Representative:** Nick Reeves

**Date of Representation:** 11 February 2011

#### Do you support or oppose implementation?

Support

#### Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The current default System Marginal Buy and Sell Prices (default SMPs) within the UNC were set in April 2001 based upon a proxy of storage costs on the premise that gas storage offers an alternative to incurring imbalance charges. Despite continually changing storage prices since 2001 the default SMPs have remained unchanged meaning their relevance has reduced considerably to the extent that the current default SMPs are now outdated, lack cost reflectivity and as a result require updating. National Grid NTS has worked extensively with the industry, initially via Review Group 0291 (RG0291) "NTS Licence Special Condition C27 - Balancing Arrangements" and more recently via the development of Modification Proposal (Mod) 0333, to identify a wide range of potential options to update the default SMPs. Whilst RG0291 did not reach a consensus view, it was agreed that the broad scope of any change should update the default SMPs to be as a minimum; transparent, cost reflective, market based (where possible), encourage competition and include a mechanism to ensure the default SMPs remain as up to date as reasonably and economically possible. Accordingly, National Grid NTS supports the implementation of a Mod that will introduce imbalance charges based upon a proxy of the costs of pipeline space and injection / withdrawal costs together with a mechanism to keep the default SMPs updated on an annual basis. Based on the above, National Grid NTS supports the implementation of Mod 0333 and considers that the 100% Shipper User Pays funding split is the most appropriate option. National Grid NTS also offers qualified support for Mod 0333A but considers that the User Pays funding split to be less appropriate than Mod 0333 and inconsistent with the beneficiaries of both proposals.

0333

Representation

11 February 2011

Version 1.0

Page 1 of 3

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## Are there any new or additional issues that you believe should be recorded in the Modification Report?

We do not believe there are any new or additional issues to record within the Modification Report

### Relevant Objectives:

*How would implementation of this modification impact the relevant objectives?*

As proposer, National Grid NTS considers that Mod 0333 will provide more transparent and cost reflective imbalance charges on days when National Grid NTS, in its role as Residual Balancer, does not take a Market Balancing Action. As a result of this improved cost reflectivity National Grid NTS considers that shippers will be able to make a more informed choice of whether to use the alternative sources of gas flexibility e.g. gas storage or make greater or lesser use of the system's ability to accommodate a shipper's imbalance position. National Grid NTS therefore considers that the implementation of Mod 0333 will better facilitate Relevant Objective (d) "so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition".

### Impacts and Costs:

*What analysis, development and ongoing costs would you face if this modification were implemented?*

The implementation of Mod 0333 requires xoserve to undertake a change to the UK Link systems. In summary, this change requires the existing default System Marginal Price values that are currently 'hard coded' within the systems to be removed and replaced with a flexible data table that can be updated on a regular basis in line with the annual update proposed within Mod 0333. An annual data fix solution has been ruled out for this change for reasons of system integrity and to eliminate the ongoing costs, risks and associated inefficiencies of testing the system after each annual data fix. Instead an efficient and robust enduring system solution has been proposed and cost estimates were provided within the Rough Order of Magnitude (ROM) for this Mod.

As indicated within both Mod 0333 and the associated ROM (available on the Joint Office website) National Grid NTS believes that the implementation costs described above will be at least £205k but probably not more than £227k. It is important to note that this is a cost estimate and does not represent a quotation for the work.

### Implementation:

*What lead-time would you wish to see prior to this modification being implemented, and why?*

National Grid NTS is aware that due to the time Mod 0333 spent within the development phase the initial aspiration to implement the changes by 1 April 2011 may have subsequently caused some confusion among interested parties.

To clarify, the ROM for Mod 0333 states that delivery of the system solution is likely to take in the region of 21 to 29 weeks, with implementation potentially becoming effective from the first day of a month. Accordingly, National Grid NTS would now suggest an implementation date of 1 October 2011 is more realistic provided an Authority decision is received by 11 March 2011 (allowing for a 29 week delivery).

As with all system changes the implementation date will be confirmed following completion of the analysis phase of the project which in turn is likely to take between 11 and 14 weeks following an Authority decision.

### **Legal Text:**

*Are you satisfied that the legal text will deliver the intent of the modification?*

National Grid NTS welcomes any comments submitted with regards to the suggested text.

### **Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

We do not believe there are any further items to be taken into account

## Representation

### Draft Modification Report

#### **0333A - Update of the default System Marginal Buy Price and System Marginal Sell Price**

**Consultation close out date:** 11 February 2011

**Organisation:** National Grid NTS

**Representative:** Nick Reeves

**Date of Representation:** 11 February 2011

#### **Do you support or oppose implementation?**

Qualified Support

#### **Please summarise (in one paragraph) the key reason(s) for your support/opposition.**

The current default System Marginal Buy and Sell Prices (default SMPs) within the UNC were set in April 2001 based upon a proxy of storage costs on the premise that gas storage offers an alternative to incurring imbalance charges. Despite continually change storage prices since 2001 the default SMPs have remained unchanged meaning their relevance has reduced considerably to the extent that the current default SMPs are now outdated, lack cost reflectivity and as a result require updating. National Grid NTS has worked extensively with the industry, initially via Review Group 0291 (RG0291) "NTS Licence Special Condition C27 - Balancing Arrangements" and more recently via the development of Modification Proposal (Mod) 0333, to identify a wide range of potential options to update the default SMPs. Whilst RG0291 did not reach a consensus view, it was agreed that the broad scope of any change should update the default SMPs to be as a minimum; transparent, cost reflective, market based (where possible), encourage competition and include a mechanism to ensure the default SMPs remain as up to date as reasonably and economically possible. Accordingly, National Grid NTS supports the implementation of a Mod that will introduce imbalance charges based upon a proxy of the costs of pipeline space and injection / withdrawal costs together with a mechanism to keep the default SMPs updated on an annual basis. Based on the above, National Grid NTS offers qualified support for Mod 0333A as we consider that the User Pays funding split to be inconsistent with the beneficiaries of both Mod 0333 and 0333A and as such less appropriate than the funding split proposed within Mod 0333. National Grid NTS supports the implementation of Mod 0333 as we consider that the 100% Shipper User Pays funding split to be the most appropriate option.

0333A

Representation

11 February 2011

Version 1.0

Page 1 of 4

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## Are there any new or additional issues that you believe should be recorded in the Modification Report?

Whilst recognising and supporting the nature of Mod 0333A, National Grid NTS has a preference for Mod 0333 and only offers qualified support for the implementation of the alternate Mod 0333A due to the different User Pays funding split proposed. This funding split assumes that more cost reflective imbalance charges, achieved by the implementation of Mod 0333A, will lead to improved economic and efficient operation of the pipeline system subsequently providing a benefit to Transporters presumably through reduced operating costs although this was not explicitly explained within Mod 0333A. National Grid NTS recognises that predicting the impact that a change to the default SMPs will have on Shipper balancing behaviour is complicated, not least because the current default SMPs have remained unchanged since their introduction in 2001.

The changes to the default SMPs proposed by both Mod 0333 and Mod 0333A will, at least initially, result in a 8-18% reduction to the current default SMPs. Whilst the industry has been unable to quantify the effects of such a reduction in the default SMPs, this may reduce the incentive for Shippers to balance. Any reduction in Shipper balancing performance will result in an increase to the activities and costs associated with the Residual Balancing role. As such, whilst Mod 0333 and Mod 0333A may promote an efficient decision making process by Shippers when choosing between the various sources of gas flexibility, this choice may result in greater use of system flexibility by Shippers increasing both system operation and Residual Balancing costs. During the development phase, a number of requests were made for industry parties to provide quantifiable analysis to demonstrate a possible change to shipper behaviour that may result from a change to the default SMPs. Unfortunately no such shipper analysis has to date been forthcoming.

National Grid NTS notes that Mod 0333A includes no quantification of the implied benefit to system operation and instead seeks to rely on un-quantified industry comments made at the 6<sup>th</sup> January 2011 Transmission Workstream.

One likely impact that can be quantified from the proposed change to the default SMPs is, at least initially, the financial benefit to Shippers via a reduction to Balancing Neutrality charges. Based on imbalance volumes for each day of the calendar year 2009, National Grid NTS believes that if the proposed default SMPs were applied to this imbalance volume instead of the current default SMPs, Shippers would have benefited by approximately £1.2M via the reduced unit charges of the System Marginal Buy Price and System Marginal Sell Price.

Mod 0333A also states that the proposed User Pays funding split should recognise the possible financial penalty of a licence breach avoided by National Grid NTS by raising Mod 0333. National Grid NTS does not agree with the view stated in Mod 0333A and believes National Grid NTS's requirement to demonstrate compliance with Licence Condition C27 should not be considered within the User Pays funding determination for two main reasons. Firstly, National Grid NTS believes that Shippers will be the clear beneficiaries of Mod 0333 as a result of reduced Balancing Neutrality charges whereas for the reasons detailed above Transporters will, at best, remain unaffected. Secondly, due to the neutral role National Grid NTS plays within the energy balancing regime it believes that a Mod seeking to satisfy the ERGEG Draft Pilot Framework Guidelines on gas balancing rules should be funded by the competitive market within which the imbalance charges will be implemented.

For all of the reasons summarised within this section National Grid NTS can only offer qualified support for the implementation of Mod 0333A and expresses an outright preference for Mod 0333.

### **Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

Mod 0333 clearly sets out how National Grid NTS believes the proposed change to the default SMPs would better facilitate Relevant Objective (d).

In addition to (d) Modification Proposal 0333A states that the proposal will better facilitate Relevant Objectives (a) and (c). With regards to Relevant Objective (a) National Grid NTS believes that Mod 0333A will not better facilitate the economic and efficient operation of the system, and at best will maintain the current situation. For the reasons explained in the above section there is little or no evidence to suggest that more transparent and cost reflective default imbalance charges will benefit the operation of the pipeline system, indeed such a change may even lead to an increased use of system flexibility and thus increase operational costs.

National Grid NTS agrees that Mod 0333 was developed to demonstrate compliance with Licence Condition C27, and as a result better facilitates Relevant Objective (c).

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if this modification were implemented?*

0333A

Representation

11 February 2011

Version 1.0

Page 3 of 4

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National Grid NTS has provided a detail response to this section within its Representation to Mod 0333 and the same comments apply to Mod 0333A.

**Implementation:**

*What lead-time would you wish to see prior to this modification being implemented, and why?*

National Grid NTS has provided a detail response to this section within its Representation to Mod 0333 and the same comments apply to Mod 0333A.

**Legal Text:**

*Are you satisfied that the legal text will deliver the intent of the modification?*

National Grid NTS welcomes any comments submitted with regards to the suggested text.

**Is there anything further you wish to be taken into account?**

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We do not believe that there is anything further to be taken into account.